Msinga Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	Local Municipality
Mayoral committee	
Executive Mayor	Cllr BP Ngcobo
Councillors	Cllr SG Masimula
	Cllr TL Kunene
	Cllr K Sithole
	Cllr M.P.S Mshibe
	Cllr T Mntugwa
	Cllr JV Langa
	Cllr TM Ndlovu
	Cllr M.W Sokhela
	Cllr SC Mpungose
	Cllr NC Xaba
	Cllr N M Mabaso
	Cllr LE Danisa
	Cllr BP Madondo
	Cllr P Dladla
	Cllr M Sithole
	Dr. FJ Sikhakhane
	Cllr GB Sikhakhane
	Cllr B Dumakude
	Cllr MS Khoza
	Cllr XS Xaba
	Cllr S Magubane
	Cllr A.S Shezi
	Cllr N.C Sikhosana
	Cllr BL Ntuli
	Cllr ZS Magwaza
	Cllr DM Ndlovu
	Cllr SR Sokhulu
	Cllr M.M.S Myeza
	Cllr B Mthethwa
	Cllr LD Ngubane
	Cllr SK Radebe
	Cllr NP Xulu
	Cllr N Majozi
	Cllr S Ximba
	Cllr ZE Shange
	Cllr TM Mabaso
	Cllr M.E. Ngobe
Grading of local authority	1
Accounting Officer	Sokhela S.L.
Business address	Main road Tugela Ferry
Postal address	Private Bag X530 Tugela Ferry

General Information

	3010
Bankers	ABSA
Auditors	Auditor - General South Africa Registered Auditors

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Approval of Annual Financial Statements

I am responsible for the presentation of the Annual Financial Statements, which are set out on pages 6 to 47, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits made to Councillors, if any, and payments made to Councillors are for the loss of office, if any, as disclosed in note 22 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The Accounting Officer is responsible for the presentation and fair presentation of these Annual Financial Statements in accordance with Generally Recognised Accounting Practice (GRAP) in a manner required by local government. Municipal Finance Management Act, 2003 (Act No. 56 of 2003) including interpretations, guidelines and directives issued by the Accounting Standards Board.

It is the responsibility of the Accounting Officer to ensure that the Annual Financial Statements fairly present the statement of affairs of the municipality as at the end of the financial period and the results of its operations and cash flows for the period then ended.

Sokhela S.L.
Municipal Manager

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 47, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Sokhela S.L.
Municipal Manager

Statement of Financial Position as at 30 June 2018

	Note(s)	2018	2017 Restated
Assets			
Current Assets			
Accrued interest	6	19 338	-
VAT receivable	7	-	19 425 989
Receivables from non-exchange transactions	8	2 682 274	438 987
Cash and cash equivalents	9	34 378 774	36 743 157
		37 080 386	**56 608 133**
Non-Current Assets			
Property, plant and equipment	3	176 497 689	164 513 211
Intangible assets	4	354 576	640 300
		176 852 265	**165 153 511**
Total Assets		**213 932 649**	**221 761 644**
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	25 611 179	16 863 746
VAT payable	13	1 173 411	-
Unspent conditional grants and receipts	10	1 650 013	1 634 232
Provisions	11	615 976	623 930
		29 050 579	**19 121 908**
Non-Current Liabilities			
Employee benefit obligation	5	747 000	719 000
Provisions	11	5 038 014	4 478 232
		5 785 014	**5 197 232**
Total Liabilities		**34 835 593**	**24 319 140**
Net Assets		**179 097 056**	**197 442 504**
Reserves			
Revaluation reserve		650 000	480 000
Accumulated surplus		178 447 056	196 962 504
Total Net Assets		**179 097 056**	**197 442 504**

Statement of Financial Performance

	Note(s)	2018	2017 Restated
Revenue			
Revenue from exchange transactions			
Service charges	15	126 689	202 201
Rental of facilities and equipment	16	427 453	840 255
Other income	17	206 260	122 683
Interest received - investment	18	4 006 667	2 947 880
Total revenue from exchange transactions		**4 767 069**	**4 113 019**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	13 085 269	16 247 452
Transfer revenue			
Government grants & subsidies	20	178 939 000	177 734 332
Total revenue from non-exchange transactions		**192 024 269**	**193 981 784**
Total revenue	14	**196 791 338**	**198 094 803**
Expenditure			
Employee related costs	21	(41 062 460)	(32 956 954)
Remuneration of councillors	22	(11 218 524)	(9 972 517)
Depreciation and amortisation	23	(21 524 435)	(18 890 568)
Finance costs		(559 780)	(547 581)
Debt Impairment	8	(3 301 626)	(9 438 496)
Repairs and maintenance	24	(28 571 440)	(14 109 625)
Free basic services	25	(2 901 429)	(12 011 583)
Contracted services	26	(9 973 900)	(7 285 577)
Transfers and Subsidies		(3 000 882)	(12 155 526)
General Expenses	27	(68 112 413)	(60 189 612)
Total expenditure		**(190 226 889)**	**(177 558 039)**
Operating surplus		**6 564 449**	**20 536 764**
Loss on disposal of assets		-	(11 669 330)
Surplus for the year		**6 564 449**	**8 867 434**

Msinga Local Municipality
(Registration number KZN 244)
Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2016 restated	**480 000**	**188 095 068**	**188 575 068**
Changes in net assets			
Surplus for the year as previously reported	-	8 867 436	8 867 436
Total changes	-	8 867 436	8 867 436
Balance at 01 July 2017	**480 000**	**171 882 607**	**172 362 607**
Changes in net assets			
Surplus for the year	-	6 564 449	6 564 449
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	170 000	-	170 000
Total changes	170 000	6 564 449	6 734 449
Balance at 30 June 2018	**650 000**	**178 447 056**	**179 097 056**

Note(s)

Cash Flow Statement

	Note(s)	2018	2017 Restated
Cash flows from operating activities			
Receipts			
Cash receipts from consumers and government		190 005 884	194 690 440
Interest income		4 006 667	2 947 879
Cash paid to suppliers and employees		(163 324 489)	(161 929 781)
Cash generated from operations		30 688 062	35 708 536
Net cash flows from operating activities	28	**30 688 062**	**35 708 536**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(32 934 022)	(39 954 560)
Purchase of other intangible assets	4	(118 426)	-
Net cash flows from investing activities		**(33 052 447)**	**(39 954 560)**
Net increase/(decrease) in cash and cash equivalents		**(2 364 383)**	**(4 246 026)**
Cash and cash equivalents at the beginning of the year		36 743 157	40 989 183
Cash and cash equivalents at the end of the year	9	**34 378 774**	**36 743 157**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	255 000	(78 000)	177 000	126 689	(50 311)	note 40.1
Rental of facilities and equipment	150 000	131 000	281 000	427 453	146 453	note 40.2
Other income	750 000	(418 000)	332 000	206 260	(125 740)	note 40.3
Interest received - investment	3 000 000	(1 151 680)	1 848 320	4 006 667	2 158 347	note 40.4
Total revenue from exchange transactions	4 155 000	(1 516 680)	2 638 320	4 767 069	2 128 749	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7 707 000	2 759 000	10 466 000	13 085 269	2 619 269	note 40.5
Transfer revenue						
Government grants & subsidies	209 468 000	(41 753 000)	167 715 000	178 939 000	11 224 000	note 40.6
Total revenue from non-exchange transactions	217 175 000	(38 994 000)	178 181 000	192 024 269	13 843 269	
Total revenue	221 330 000	(40 510 680)	180 819 320	196 791 338	15 972 018	
Expenditure						
Personnel	(49 705 000)	14 437 000	(35 268 000)	(41 062 460)	(5 794 460)	note 40.7
Remuneration of councillors	(11 039 000)	3 330 000	(7 709 000)	(11 218 524)	(3 509 524)	note 40.8
Depreciation and amortisation	(1 974 000)	(23 126 000)	(25 100 000)	(21 524 435)	3 575 565	note 40.9
Finance costs	(9 200 000)	9 200 000	-	(559 780)	(559 780)	note 40.10
Debt Impairment	-	-	-	(3 301 626)	(3 301 626)	note 40.11
Repairs and maintenance	-	-	-	(28 571 440)	(28 571 440)	note 40.12
Free basic services	-	-	-	(2 901 429)	(2 901 429)	note 40.13
Contracted Services	-	-	-	(9 973 900)	(9 973 900)	note 40.14
Transfers and Subsidies	-	-	-	(3 000 882)	(3 000 882)	note 40.15
General Expenses	(19 745 000)	(122 730 000)	(142 475 000)	(68 112 413)	74 362 587	note 40.16
Total expenditure	(91 663 000)	(118 889 000)	(210 552 000)	(190 226 889)	20 325 111	
Surplus for the year	129 667 000	(159 399 680)	(29 732 680)	6 564 449	36 297 129	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	129 667 000	(159 399 680)	(29 732 680)	6 564 449	36 297 129	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003) with the exception of certain accounting policies adopted in accordance with International Accounting Standards (IAS).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

GRAP 1 Presentation of Financial Statement

GRAP 2 Cash Flow Statements

GRAP 3 Accounting Policies, Changes in Accounting Estimates and Error

GRAP 5 Borrowing Costs

GRAP 6 Consolidated and Separate Financial Statements

GRAP 9 Revenue from Exchange Transactions

GRAP 12 Inventories

GRAP 13 Leases

GRAP 14 Events after the Reporting Date

GRAP 16 Investment property

GRAP 17 Property, Plant and Equipment

GRAP 19 Provisions, Contingent Liabilities and Contingent Asset

GRAP 21 Impairment of non-cash generating asset

GRAP 23 Revenue from Non-exchange transactions

GRAP 24 Presentation of budget information

GRAP 25 Employee benefits

GRAP 26 Impairment of cash generating assets

GRAP 31 Intangible Assets

GRAP 100 Non-Current Assets Held for Sale and Discontinued Operations

GRAP 103 Heritage Assets

GRAP 104 Financial Instruments

GRAP 106 Transfer of Functions between entities not under common Control

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

Accounting Policies

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Debtors receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Accounting Policies

1.4 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	3-30 years
Roads and pavings	Straight line	10-30 years
Air conditioners	Straight line	5 - 7 years
Furniture and fixtures	Straight line	3 -10 years
Vehicles and tractors	Straight line	3-10 years
Office equipment	Straight line	3-10 years
IT equipment	Straight line	3-5 years
Machinery and equipment	Straight line	3-10 years
Radio	Straight line	3-5 years
Electricity	Straight line	5-25 years
Pedestrian Malls	Straight line	10-30 years
Recreational facilities	Straight line	5-10 years
Sewerage	Straight line	20-30 years
Landfill site	Straight line	21 years
Tools and loose gear	Straight line	5 years
Water network	Straight line	20 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

Accounting Policies

1.4 Property, plant and equipment (continued)

Subsequent Measurement - Revaluation Model (Land, buildings and other Infrastructure)
Subsequent to initial recognition, land, buildings and other infrastructure assets are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.
An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reserves a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit of that asset.
Land is not depreciated as it is deemed to have an indefinite useful life.
Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.
Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Accounting Policies

1.5 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Licenses	Straight line	1-5 years

Subsequent Measurement - Revaluation Model (intangible asset)
Subsequent to initial recognition, intangible assets are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.
An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reserves a revaluation decrease of the same asset previously recognised in surplus or deficit.
A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit of that asset.
Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.
Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

Accounting Policies

1.6 Financial Instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

1.6 Financial Instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Subsequent measurement

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.6 Financial instruments (continued)

Investments

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Trade and other receivables

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Trade payable and borrowings

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Cash and cash equivalents

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Accounting Policies

1.7 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

- the number of production or similar units expected to be obtained from the asset by the municipality.

1.9 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of a municipality after deducting all of its liabilities.

1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

1.10 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, the municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.12 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Grants, transfers and donations

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.13 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Accounting Policies

1.14 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA as:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is notin accordance with, a requirement of this Act, and which has not been condoned in terms of section 170; of this Act; or

(b) in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); orany provincial legislation providing for procurement procedures in that provincial government.

(c) expenditure incurred by a municipality or municipal entity in contravention of, or that is notin accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.17 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.18 Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provisional basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

1.19 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.
Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.
When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and Interpretations Issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	To be confirmed	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	To be confirmed	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	To be confirmed	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	To be confirmed	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	To be confirmed	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	To be confirmed	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
•		
• GRAP 16 (as amended 2016): Investment Property		
• GRAP 17 (as amended 2016): Property, Plant and Equipment		
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets		

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- GRAP 26 (as amended 2016): Impairment of cash-generating assets
- GRAP 27 (as amended 2016): Agriculture
- GRAP 31 (as amended 2016): Intangible Assets
- GRAP 103 (as amended 2016): Heritage Assets
- Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	21 493 609	(8 443 841)	13 049 768	21 108 977	(7 750 194)	13 358 783
Plant and machinery	358 771	(178 550)	180 221	202 652	(129 057)	73 595
Furniture and fixtures	2 441 325	(1 642 887)	798 438	2 189 421	(1 384 368)	805 053
Motor vehicles	28 005 386	(18 762 895)	9 242 491	27 195 086	(15 983 894)	11 211 192
Office equipment	3 188 654	(2 792 992)	395 662	2 892 296	(2 640 434)	251 862
Infrastructure	225 294 168	(77 498 558)	147 795 610	198 995 643	(60 475 623)	138 520 020
Community	17 016 613	(12 271 114)	4 745 499	12 269 415	(12 216 709)	52 706
Refuse dump	2 606 564	(2 316 564)	290 000	2 436 564	(2 196 564)	240 000
Tools and loose gear	-	-	-	11 014	(11 014)	-
Total	**300 405 090**	**(123 907 401)**	**176 497 689**	**267 301 068**	**(102 787 857)**	**164 513 211**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Work in progress	Revaluations	Depreciation	Total
Buildings	13 358 783	384 632	-	-	(693 647)	13 049 768
Plant and machinery	73 595	145 105	-	-	(38 479)	180 221
Furniture and fixtures	805 053	251 904	-	-	(258 519)	798 438
Motor vehicles	11 211 192	810 300	-	-	(2 779 001)	9 242 491
Office equipment	251 862	296 358	-	-	(152 558)	395 662
Infrastructure	138 520 020	14 205 246	12 093 279	-	(17 022 935)	147 795 610
Community	52 706	4 747 198	-	-	(54 405)	4 745 499
Refuse dump	240 000	-	-	170 000	(120 000)	290 000
	164 513 211	**20 840 743**	**12 093 279**	**170 000**	**(21 119 544)**	**176 497 689**

Notes to the Annual Financial Statements

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Prior period error	Depreciation	Total
Buildings	15 387 071	-	-	-	-	(2 028 288)	13 358 783
Plant and machinery	105 357	-	-	-	-	(31 762)	73 595
Furniture and fixtures	1 031 321	-	-	-	-	(226 268)	805 053
Motor vehicles	13 151 638	975 000	-	-	-	(2 915 446)	11 211 192
Office equipment	587 751	-	-	-	-	(335 889)	251 862
Infrastructure	112 271 338	-	(3 743 153)	40 243 426	-	(10 251 591)	138 520 020
Community	10 447 967	-	(7 926 177)	-	-	(2 469 084)	52 706
Refuse dump	360 000	-	-	-	-	(120 000)	240 000
Work In Progress	87 273 057	38 979 560	-	-	(126 252 617)	-	-
	240 615 500	**39 954 560**	**(11 669 330)**	**40 243 426**	**(126 252 617)**	**(18 378 328)**	**164 513 211**

4. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	1 270 966	(916 390)	354 576	1 152 540	(512 240)	640 300

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Intangible assets	640 300	118 426	(404 150)	354 576

4. Intangible assets (continued)

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Intangible assets	-	1 152 540	(512 240)	640 300

Notes to the Annual Financial Statements

	2018	2017 Restated

5. Employee benefit obligations

Defined benefit plan

Carrying value		
Opening balance	719 000	467 000
Current service cost	98 000	82 000
Interest cost	77 000	50 000
Benefit payment	(45 000)	(25 000)
Acturial loss /(gain)	(102 000)	145 000
	747 000	**719 000**

Net expense recognised in the statement of financial performance		
Current service cost	98 000	82 000
Interest cost	77 000	50 000
Benefit payment	(45 000)	(25 000)
Acturial loss /(gain)	(102 000)	145 000
	28 000	**252 000**

Nature of Liability

The employer's long service bonus awards consist of an obligation to pay out a bonus in the year of the employee attaining the required service.This obligation represents a liability to the employer and the value is represented by the present value of the total long service bonus awards expected to become payable under the employer's current policy. Msinga Local Municipality offers bonuses for every 10 years of completed service from 10 years to 45 years.

Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed . Msinga Local Municipality advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

Summary of acturial assumptions.

The long service bonus awards is a function of
annual leave days and is convertible into cash in the year the employee attains the service eligible for an award. As a result the award is also function of the employee's annual salary.

The annual salary is converted into a daily salary by dividing the annual salary by 250.The consumer price inflation of 6.82% p.a. is obtained from the differential between the long term market yield on the index-linked bond (the R197 at 1.56% p.a.) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 8.48% p.a.).However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have assumed that salary inflation will exceed consumer price inflation by 1% per annum.The assumption regarding the relative levels of these two rates is our expectation of the long-term average. GRAP 25 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used.

The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations." As such a discount rate of 8.51% p.a. has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond.

Liability valuation method.

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date.In determining these liabilities, due allowance has been made for future award increases.For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.In accordance with the requirements of GRAP 25, the Projected Unit Credit method of funding has been applied.

Notes to the Annual Financial Statements

	2018	2017 Restated

6. Accrued interest

Accrued interest income	19 338	-

Interest accrued on municipality ABSA investment account at year end.

7. VAT receivable

VAT	-	19 425 988

8. Receivables

Gross balances		
Rates	33 496 639	31 044 326
Refuse	361 907	874 885
Other	189 817	166 366
	34 048 363	**32 085 577**
Less: Allowance for impairment		
Rates	(30 859 670)	(30 641 675)
Refuse	(350 760)	(869 965)
Other	(155 659)	(134 951)
	(31 366 089)	**(31 646 591)**
Net balance		
Rates	2 636 969	402 651
Refuse	11 147	4 920
Other	34 158	31 415
	2 682 274	**438 986**
Included in above is receivables from exchange transactions		
Refuse	11 147	4 920
Other	34 158	31 415
	45 305	**36 335**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	2 636 969	402 651
Net balance	**2 682 274**	**438 986**
Rates		
Current (0 -30 days)	968 103	147 824
31 - 60 days	965 457	147 420
61 - 90 days	469 739	71 727
91 - 120 days	233 670	35 680
	2 636 969	**402 651**

Notes to the Annual Financial Statements

	2018	2017 Restated

8. Receivables (continued)

Refuse		
Current (0 -30 days)	5 082	2 243
31 - 60 days	3 465	1 529
61 - 90 days	1 733	765
383	867	383
	11 147	**4 920**

Other		
Current (0 -30 days)	2 522	2 319
31 - 60 days	2 280	2 097
61 - 90 days	1 400	1 288
91 - 120 days	925	851
121 - 365 days	27 031	24 860
	34 158	**31 415**

Summary of debtors by customer classification

Households		
Current (0 -30 days)	60 388	50 553
31 - 60 days	60 388	50 554
61 - 90 days	60 388	50 554
91 - 120 days	60 377	50 544
121 - 365 days	6 654 767	5 571 011
	6 896 308	5 773 216
Less: Allowance for impairment	(6 722 386)	(5 727 661)
	173 922	**45 555**

Industrial/ commercial		
Current (0 -30 days)	307 046	257 042
31 - 60 days	305 186	255 485
61 - 90 days	305 187	255 468
91 - 120 days	305 165	255 468
121 - 365 days	7 553 169	6 323 105
	8 775 753	7 346 568
Less: Allowance for impairment	(7 917 632)	(7 228 213)
	858 121	**118 355**

National and provincial government		
Current (0 -30 days)	608 273	509 213
31 - 60 days	605 628	506 999
61 - 90 days	579 649	485 251
91 - 120 days	574 847	481 231
121 - 365 days	16 007 905	13 400 953
	18 376 302	15 383 647
Less: Allowance for impairment	(16 726 071)	(15 108 589)
	1 650 231	**275 058**

Notes to the Annual Financial Statements

	2018	2017 Restated

8. Receivables (continued)

Total		
Current (0 -30 days)	975 707	156 686
31 - 60 days	971 202	158 949
61 - 90 days	472 871	77 391
91 - 120 days	235 461	38 536
121 - 365 days	27 033	7 424
	2 682 274	**438 986**

Less: Allowance for impairment		
61 - 90 days	(472 352)	(422 632)
91 - 120 days	(704 927)	(630 726)
121 - 365 days	(30 188 810)	(30 593 233)
	(31 366 089)	**(31 646 591)**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(28 064 463)	(22 208 095)
Contributions to allowance	(3 301 626)	(9 438 496)
	(31 366 089)	**(31 646 591)**

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. Consumer debtors are impaired as a result of non collectability of the debtors due to the fact that people do not have title deeds and no basic services are offered including sewer system and refuse remove.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	492 312	4 253 163
Short-term deposits	33 886 462	32 489 994
	34 378 774	**36 743 157**

	2018	2017 Restated

9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
Absa bank Primary Account- Greytown Branch Account number 4053635886	492 312	4 253 163	5 633 064	492 312	4 253 163	5 633 064
FNB Investments - 74105142017 - Investment	14 001 434	13 065 746	12 114 900	14 001 434	13 065 746	12 114 900
FNB BANK - 62499591777 - Investments	316 680	300 899	285 116	316 680	300 899	285 116
FNB BANK - 62124265837 - Investment	5 303	5 541	5 170 582	5 303	5 541	5 170 582
ABSA BANK - 2064443721 - Investment	7 946 941	15 893 883	14 616 409	7 946 941	15 893 883	14 616 409
ABSA BANK - 2076957671 - Investment	8 000 000	-	-	8 000 000	-	-
Liberty Life - 60586132 - Investment	1 460 274	1 366 117	1 312 452	1 460 274	1 366 117	1 312 452
Liberty Life - 60586157 - Investment	359 305	309 635	309 443	359 305	309 635	309 443
Liberty Life - 60586164 - Investment	359 305	309 635	309 443	359 305	309 635	309 443
Liberty Life - 60586171 - Investment	359 305	309 635	309 443	359 305	309 635	309 443
Liberty Life - 60586189 - Investment	359 305	309 635	309 443	359 305	309 635	309 443
Liberty Life - 60586196 - Investment	359 305	309 635	309 443	359 305	309 635	309 443
Liberty Life - 60586206 - Investment	359 305	309 635	309 443	359 305	309 635	309 443
Total	**34 378 774**	**36 743 159**	**40 989 181**	**34 378 774**	**36 743 159**	**40 989 181**

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2018	2017 Restated
Unspent conditional grants and receipts		
Sportsfield grant	1 333 333	1 333 333
Construction of shelters grant	316 680	300 899
	1 650 013	**1 634 232**

	2018	2017 Restated

11. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Landfill site rehabilitation	4 478 233	559 780	-	5 038 013
Performance bonus provision	623 930	615 976	(623 930)	615 976
	5 102 163	**1 175 756**	**(623 930)**	**5 653 989**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Landfill site rehabilitation	3 980 653	497 580	-	4 478 233
Performance bonus provision	606 862	623 930	(606 862)	623 930
	4 587 515	**1 121 510**	**(606 862)**	**5 102 163**

	2018	2017 Restated
Non-current liabilities	5 038 013	4 478 233
Current liabilities	615 976	623 930
	5 653 989	**5 102 163**

12. Payables from exchange transactions

	2018	2017 Restated
Trade payables	10 590 977	12 533 516
Payments received in advanced	2 020 740	1 452 571
Accrued leave pay	4 320 115	2 610 502
Outstanding Cheques	8 333 043	-
Accrued vehicle expenses	346 303	267 157
	25 611 178	**16 863 746**

13. VAT payable

	2018	2017 Restated
Tax refunds payables	1 173 412	-

14. Revenue

	2018	2017 Restated
Service charges	126 689	202 201
Rental of facilities and equipment	427 453	840 255
Other income	206 260	122 683
Interest received - investment	4 006 667	2 947 881
Property rates	13 085 269	16 247 452
Government grants & subsidies	178 939 000	177 734 332
	196 791 338	**198 094 804**

Notes to the Annual Financial Statements

	2018	2017 Restated

14. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	126 689	202 201
Rental of facilities and equipment	427 453	840 255
Other income	206 260	122 683
Interest received - investment	4 006 667	2 947 881
	4 767 069	**4 113 020**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	13 085 269	16 247 452
Transfer revenue		
Government grants & subsidies	178 939 000	177 734 332
	192 024 269	**193 981 784**

15. Service charges

Service charges	126 689	202 201

16. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	427 453	840 255

17. Other revenue

Other income	206 260	122 683

18. Investment revenue

Interest revenue		
Interest on current account	3 070 808	1 563 208
Interest on investments	935 859	1 384 673
	4 006 667	**2 947 881**

19. Property rates

Rates received

Residential	504 083	4 854 670
Commercial	3 266 867	3 810 764
State	9 370 600	1 641 394
Municipal	160 541	1 436 643
Small holdings and farms	-	1 311 152
Sundry	-	5 702 480
Less: Rebates	(216 822)	(2 509 651)
	13 085 269	**16 247 452**

Notes to the Annual Financial Statements

	2018	2017 Restated

19. Property rates (continued)

Valuations

	2018	2017 Restated
Residential	25 296 000	29 599 000
Commercial	1 079 507 000	711 909 000
State	125 278 000	370 309 000
Municipal	17 154 000	17 154 000
Other	356 034 000	394 269 000
	1 603 269 000	**1 523 240 000**

20. Government grants and subsidies

Operating grants	2018	2017 Restated
Equitable share	133 437 000	126 639 000
Finance Management Grant (FMG)	1 900 000	1 825 000
Extended Public Works Programme	4 775 000	2 095 000
Tourism grant	-	1 928
LED building capacity grant	-	6 204
Grants - General	-	451 023
Municipal support grant	-	807
Grants - General	-	820 300
Thusong Centres	-	319 090
Municipal Infrastructure Grant (MIG)	38 032 000	39 300 000
Grant - Community Development Workers	-	128 890
Internal Development iStructure Grant	-	88 940
Grant - Construction of Shelters	-	3 853 606
Grant - Project Consolidate	-	503 508
Sportsfields	-	167 280
Intern Corporate	-	108 000
Sport and Recreation	-	665 756
Library Grant	795 000	760 000
	178 939 000	**177 734 332**

Municipal Infrastructure Grant

Municipal Infrasructure Grant (MIG)

	2018	2017 Restated
Current-year receipts	38 032 000	39 300 000
Conditions met - transferred to revenue	(38 032 000)	(39 300 000)
	-	-

Finance Management Grant (FMG)

	2018	2017 Restated
Current-year receipts	1 900 000	1 825 000
Conditions met - transferred to revenue	(1 900 000)	(1 825 000)
	-	-

Sportsfields Grants

	2018	2017 Restated
Balance unspent at beginning of year	1 333 333	-
Current-year receipts	-	1 333 333
	1 333 333	**1 333 333**

Notes to the Annual Financial Statements

	2018	2017 Restated

20. Government grants and subsidies (continued)

Construction of Shelters Grant

Balance unspent at beginning of year	300 899	4 126 003
Current-year receipts interest from FNB	15 781	28 502
Conditions met - transferred to revenue	-	(3 853 606)
	316 680	**300 899**

Municipal Support Grant

Balance unspent at beginning of year	-	807
Conditions met - transferred to revenue	-	(807)
	-	-

Tourism Grant

Balance unspent at beginning of year	-	1 928
Conditions met - transferred to revenue	-	(1 928)
	-	-

Extended Public Works Programme

Current-year receipts	4 775 000	2 095 000
Conditions met - transferred to revenue	(4 775 000)	(2 095 000)
	-	-

Library Grant

Current-year receipts	795 000	760 000
Conditions met - transferred to revenue	(795 000)	(760 000)
	-	-

Integrated National Electrification Programme (INEP)

Current-year receipts	29 000 000	25 000 000
Eskom approved projects	(29 000 000)	(25 000 000)
	-	-

The grant received from the department of energy in respect of electrification projects that are handed over to Eskom once completed.

Notes to the Annual Financial Statements

	2018	2017 Restated

21. Employee related costs

Basic	25 001 137	20 985 553
Bonus	1 566 819	1 415 784
Medical aid - company contributions	1 425 138	956 717
UIF	559 079	-
Performance bonus provision	615 976	623 930
Travel, motor car, accommodation and subsistence	6 952 831	5 441 536
Overtime payments	1 575 758	467 752
Long-service awards	17 799	-
	37 714 537	**29 891 272**

Remuneration of Municipal Manager

Annual Remuneration	908 105	845 851
Car Allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	41 040	41 040
Rural Allowance	90 811	88 689
	1 159 956	**1 095 580**

Remuneration of Chief Finance Officer

Acting Allowance	382 793	-

Remuneration of Director: Planning

Annual Remuneration	485 356	579 964
Car Allowance	39 600	52 800
Rural Allowance	42 453	52 724
	567 409	**685 488**

Remuneration of Director: Corporate and Human Resources

Annual Remuneration	127 464	487 561
Car Allowance	67 656	84 000
Rural Allowance	5 039	48 756
	200 159	**620 317**

Remuneration of Director: Technical Services

Annual Remuneration	561 606	542 945
Car Allowance	72 000	72 000
Rural Allowance	52 992	49 359
Acting allowance	351 008	-
	1 037 606	**664 304**

Acting Allowance for Director Technical Services is for Acting as Municipal Manager.

Notes to the Annual Financial Statements

	2018	2017 Restated

22. Remuneration of Councillors

Executive Mayor	789 648	416 689
Deputy Executive Mayor	367 008	592 280
Mayoral Committee Members	1 781 100	1 593 170
Speaker	367 008	338 244
Councillors	7 913 760	7 032 134
	11 218 524	**9 972 517**

In-kind benefits

The Mayor, Deputy Mayor and the Speaker are not full-time employees of the municipality. Due to their work load, they are provided with an office and secretarial support at the cost of the Council.

The Mayor, makes use of the council owned vehicle. The Mayor has 4 contracted bodyguards, the Deputy Mayor has 2 contracted bodyguards whilst the Speaker has 3 bodyguards.

23. Depreciation and amortisation

Property, plant and equipment	21 120 285	18 378 328
Intangible assets	404 150	512 240
	21 524 435	**18 890 568**

24. Repairs and maintenance

Building and Facilities	6 319 009	496 481
Equipment and Motor vihicle	846 191	30 702
Road maintenance	21 406 240	13 582 442
	28 571 440	**14 109 625**

25. Free basic services

Electricity	2 901 429	12 011 583

26. Contracted services

Information Technology Services	356 509	3 017 702
Specialist Services	-	4 267 875
Contractors	9 617 391	-
	9 973 900	**7 285 577**

Notes to the Annual Financial Statements

	2018	2017 Restated

27. General expenses

AIDS awareness	-	534 454
Admin fees	-	116 949
Advertising	2 829 149	904 741
Agricultural project	-	410 776
Audit fees internal	827 849	674 154
Auditors remuneration	1 134 719	761 766
Awareness program	-	3 267 913
Bank charges	1 103 426	835 050
CDW Expenses	-	1 032
Cleaning Services	1 642 163	1 812 520
Conferences and seminars	2 458 514	335 161
Consumables	10 443 859	-
Disaster fund housing	-	420 265
Disaster management	-	145 338
Electricity	570 125	1 072 445
Entertainment	7 646 628	216 008
Indigent support	2 511 395	409 056
Insurance	62 646	568 996
Learnership and Internship expenses	434 288	3 914 026
Legal fees	215 914	305 298
Library grant expenses	-	541 552
Licences	167 910	166 272
MPCC grant expenses	-	167 456
Management Services	3 490 770	6 782 145
Materials	-	27 028
Motor vehicle expenses	3 155 947	5 332 707
Operational cost: pound	165 770	170 544
Pauper burials	451 306	372 490
Ploughing costs	-	616 191
Printing and stationery	3 700 175	234 268
Protective clothing	725 340	651 150
Relief fund	484 590	3 866 924
Seating Allowance Traditional Leaders	2 500	-
Security (Guarding of municipal property	3 062 294	6 814 354
Skills development levy	223 529	144 883
Special projects	8 513 165	4 117 595
Sports and recreation	-	2 164 284
Subscriptions and membership fees	964 000	443 489
Subsistence and travel	6 264 324	4 188 810
Sundry expenses	-	1 466
Telephone and fax	1 395 789	859 695
Valuation expenses	422 199	46 896
Ward committees	2 490 119	2 189 853
Water	48 251	760 758
Youth projects	503 760	2 822 852
	68 112 413	**60 189 612**

Notes to the Annual Financial Statements

	2018	2017 Restated

28. Cash generated from operations

Surplus	6 564 449	8 867 436
Adjustments for:		
Depreciation and amortisation	21 524 435	18 890 568
Gain on sale of assets and liabilities	-	11 669 330
Debt impairment	3 301 626	9 438 496
Movements in retirement benefit assets and liabilities	28 000	252 000
Movements in provisions	551 826	514 649
Changes in working capital:		
Accrued interest	(19 338)	108 229
Consumer debtors	(5 544 914)	(7 253 351)
Payables from exchange transactions	8 747 431	8 298 488
VAT	(4 481 234)	(12 576 599)
Unspent conditional grants and receipts	15 781	(2 500 710)
	30 688 062	**35 708 536**

29. Commitments

Authorised capital expenditure

Already contracted for but not completed		
• Infrastructure	7 822 488	51 043 124
Total capital commitments		
Already contracted for but not provided for	7 822 488	51 043 124

Authorised operational expenditure

Already contracted for but not provided for		
• Approved Operational Expenditure	16 810 081	35 358 988
Total operational commitments		
Already contracted for but not provided for	16 810 081	35 358 988

Total commitments

Total commitments		
Authorised capital expenditure	7 822 488	51 043 124
Authorised operational expenditure	16 810 081	35 358 988
	24 632 569	**86 402 112**

This committed expenditure relates to capital and operational expenses, which will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.

30. Related party transactions

The Managing Director of Ekanobhabha Trading Enterprise is the father of Mr TN Mchunu who is an employee of the municipality.The employee (Mr TN Mchunu) is not a member of Key Management Personnel nor does he hold any interest in Ekanobhabha Trading Enterprise. A formal written declaration was signed and submitted by the service provider, disclosing the fact that they are a related party of an employee of the municipality. An amount of R925 887,79 was paid to the service provider in the 2017/2018 financial year. As at 30 June 2018, the following amounts were owing to the service provider by the municipality:

Notes to the Annual Financial Statements

	2018	2017 Restated

30. Related party transactions (continued)

Name of supplier	2018/06/30	Nature of outstanding balance	Outstanding balance	Provision for doubtful debt	Net Balance.
Ekanobhabha Trading Enterprise	0	Supply of goods	0	0	0

31. Prior Period Error

The comparatives for 2016/2017 have been restated due to the following errors:

Errors

Property Plant and Equipment:

In the previous year an amount of R126 252 617 was erroneously disclosed in the Annual Financial Statements (AFS) as Work in Progress (WIP). Assets worth R40 243 426 were included in WIP which should have been capitalised. Eskom Electrification projects worth R86 009 191 were erroneously capitalised to WIP. This has been corrected and the balance restated as follows:

	2018	2017 Restated
Closing balance as at 30 June 2017 (WIP)	-	126 252 617
Roads capitilised to Fixed Asset Register (FAR)	-	(40 243 426)
Electrification projects expensed	-	(86 009 191)
Restated WIP balance	-	-

	2018	2017 Restated
Closing balance as at 30 June 2017 (Depreciation)	-	15 238 036
Depreciation for assets not capitalised last year	-	3 140 292
Restated closing balance	-	**18 378 328**

Assets transferred to Mvoti

In the previous year assets with a carrying amount of R11 699 329 were supposed to have been transferred to Mvoti Municipality. This has been corrected and the balance restated as follows:

	2018	2017 Restated
Closing balance as at 30 June 2017	-	265 332 024
Assets transferred to Mvoti Municipality	-	(11 699 329)
Restated closing balance	-	**253 632 695**

Employee related costs:

In the preceding year an amount of R960 248 was disclosed under the remeneration of the Chief Financial Officer. After considering that the previous CFO did not have an employment relationship with the Municipality, this amount was susequently allocated to management services.

	2018	2017 Restated
Closing balance as at 30 June 2017 (Management Services)	-	5 821 897
CFO Remuneration	-	960 248
Restated closing balance	-	**6 782 145**

Notes to the Annual Financial Statements

	2018	2017 Restated

31. Prior Period Error (continued)

VAT

In the previous year an amount of R28 325 281 was disclosed as VAT receivable. After obtaining clarity from Treasury regarding the treatment of VAT related to the INEP grant where the municipality is deemed to be the agent and thus not entitled to claim VAT, the municipality has calculated the VAT amount owed to SARS totaling R12 315 888. In the previous year the municipality erroneously claimed input VAT amounting to R192 275 from non-VAT vendors.To correct the aforesaid the VAT receivable has been corrected and the balance restated as follows:

	2018	2017 Restated
Closing balance as at 30 June 2017 (VAT Receivable)	-	28 325 281
Amount owed to SARS (INEP Projects)	-	(8 707 017)
VAT input errenously claimed	-	(192 275)
Restated closing balance	-	**19 425 989**

Interest on unspent conditional grant

In the previous year an amount of R28 502 was recognised as interest income instead of being capitalised to unspent conditional grants.

This has been corrected and the balance restated as follows:

	2018	2017 Restated
Unspent conditional grants and receipts		
Closing balance as at 30 June 2017 (Unspent Conditional)	-	1 605 730
Interest from FNB	-	28 502
Restated closing balance (AFS Balance Sheet)	-	**1 634 232**

	2018	2017 Restated
Interest Income		
Closing balance as at 30 June 2017 (Interest Income)	-	2 976 382
Interest from FNB	-	28 502
Restated closing balance (AFS Balance Sheet)	-	**3 004 884**

Employee benefit obligation

In the previous year an incorrect number of employees of 177 who qualify for the long term awards was given to the Actuaries for calculating the employee benefit obligation. During the current year a correct number of 110 for employees who qualified for the long term benefits awards as at 30 June 2017 was given to Actuaries. However, despite the slump in the number of employees the obligation increased by R117 000 as a result of actuarial loss of R145 000.

This has been corrected and the balance restated as follows:

	2018	2017 Restated
Closing balance as at 30 June 2017 (Employee benefit obligation)	-	602 000
Increase in obligation	-	117 000
Restated closing balance	-	**719 000**

Intangible Assets

In the previous year no intangible assets were recognised. The opening balance has been restated as follows:

	2018	2017 Restated
Closing balance as at 30 June 2017		
Intangible assets	-	1 152 540
Restated closing balance (AFS Balance Sheet)	-	**1 152 540**

Amortisation

Notes to the Annual Financial Statements

	2018	2017 Restated

31. Prior Period Error (continued)

Closing balance as at 30 June 2017

Amortisation	-	512 240
Restated closing balance	**-**	**512 240**

Cash and cash equivalents

In the previous year, an amount of R17 361 was disclosed as a Liberty Life investment (22703864). When the municipality made withdrawals from Liberty Life this year it was discovered that this investment does not exist. This investment has been removed from the investment register.

Opening balance	-	36 760 518
Reduction in investments	-	(17 361)
Restated opening balance	**-**	**36 743 157**

32. Events after the reporting date

Subsequent to the financial year end the following Liberty life investments were refunded to the Municipality.

Liberty Life - 60586132	1 415 712	-
Liberty Life - 60586157	347 334	-
Liberty Life - 60586164	347 334	-
Liberty Life - 60586171	347 334	-
Liberty Life - 60586189	347 334	-
Liberty Life - 60586196	347 334	-
Liberty Life - 60586206	347 334	-
	3 499 716	**-**

33. Unauthorised expenditure

Unauthorised expenditure	-	-

34. Contingent Liabilities

At the time of completion of the annual financial statements, there were no contingent liabilities that the municipality had.

35. Fruitless and wasteful expenditure

Opening Fruitless and wasteful expenditure	121 371	-
Fruitless and wasteful expenditure - current period	704 549	121 371
Amounts written off by council	(810 220)	-
	15 700	**121 371**

Reconciliation of fruitless and wasteful expenditure

Opening Balance	121 371	-
Fruitless and wasteful expenditure - current year	15 700	6 540
Fruitless and wasteful expenditure identified during the currrent year relating to prior year	688 849	114 831
Amounts written off by council	(810 220)	-
	15 700	**121 371**

Notes to the Annual Financial Statements

	2018	2017 Restated

36. Irregular expenditure

	2018	2017 Restated
Opening balance	47 275 810	44 950 823
Add: Irregular Expenditure - current year	9 531 645	2 324 987
Less: Amounts written off by the council	(47 275 810)	-
	9 531 645	**47 275 810**

	2018	2017 Restated
Reconciliation of Irregular Expenditure		
Opening Balance	47 275 810	44 950 823
Irregular expenditure current year	7 661 206	2 324 987
Irregular expenditure identified during the current year relating to prior year	1 870 439	-
Less: Amounts written off by the council	(47 275 810)	-
	9 531 645	**47 275 810**

The majority of irregular expenditure (7 665 134) stems from non-compliance with SCM regulations whilst an amount of R1 866 511 relates to irregular appointments.

37. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government(SALGA)

	2018	2017 Restated
Current year subscription	964 000	-
Amount paid - current year	(964 000)	-
Balance unpaid (included in payables)	-	-

Audit fees

	2018	2017 Restated
Fees	1 564 028	761 766

PAYE and UIF

	2018	2017 Restated
Opening balance	5 961 516	-
Amount paid - current year	(5 961 516)	-
	-	-

Pension and Medical Aid Deductions

	2018	2017 Restated
Opening balance	4 867 168	-
Amount paid - current year	4 867 168	-
	9 734 336	-

VAT

	2018	2017 Restated
VAT receivable	-	19 425 988
VAT payable	1 173 412	-
	1 173 412	**19 425 988**

Councillors' arrear consumer accounts

As at the end of the financial year no councillor had arrear accounts that have been outstanding for more than 90 days.

Notes to the Annual Financial Statements

	2018	2017 Restated

38. Deviations from the supply chain management regulations

	2018	2017 Restated
Deviations - current period	6 494 793	5 543 960
Amounts approved by council	(6 494 793)	(5 543 960)

	2018	2017 Restated
Nature of deviation		
Sole Supplier	3 642 470	3 583 476
Emergency	950 650	763 490
Other	1 901 673	1 196 994
	6 494 793	**5 543 960**

39. Contingent asset

During the year an amount of R 1 250 000 was paid to Khansela CC and an amount of R 300 000 was paid to Aphile CC. These payments were made to the suppliers without any order, invoice or goods delivery note. To determine their authenticity they were referred to the Internal Audit unit for investigation. The municipality believes that there is a high likelihood that these amounts (totaling R 1 550 000) will be reimbursed to the municipality.

40. Reasons for material differences

40.1 Service charges

Owing to the recessionary state of the economy coupled with the rural nature of the municipality, the budgeted amount was too optimistic leading to a variance of 38% and could not be achieved under these circumstances.

40.2 Rental of facilities and equipment

The positive variance of R146 453 (52%) is attributed to the high collection rate that we made from our market stalls coupled with high demand for community halls, etc.

40.3 Other income

Owing to the recessionary state of the economy coupled with the rural nature of the municipality, the budgeted amount was too optimistic leading to a variance of 38% and could not be achieved under these circumstances.

40.4 Interest received - investment

The variance of 117% in interest is attributed to the change in cash management strategy employed during the year. However, the budgeted amount appears to be too optimistic as the municipality could not afford to invest cash for much longer periods.

40.5 Property rates

The difference can be attributed to incorrect budgeting. Compared to the previous year the actual amount was R16,2m.

40.6 Government grants & subsidies

The difference is due to error on budget schedules completion. Going forward these errors will be fixed.

40.7 Personnel

The negative variance of 16% can be attributed to increase in staff costs. On comparative basis, the actual employee costs for the previous year was R32,9m. The final budgeted amount of R35,3 compares realistically to last year's figure.

40.8 Remuneration of councillors

The final budgeted amount was under budgeted by almost three (3) million rands rands compared to the approved budget of R11,0 million. In future theses budget errors will be fixed to avoid big variances.

Notes to the Annual Financial Statements

	2018	2017 Restated

40.9 Depreciation and amortisation

The amount of R3.6 million was due to certain assets not accounted for as per 2017 AFS. Its has since been rectified.

40.10 Finance costs

The variance emanates from flawed budgetary process. The municipality does not have borrowings that could attract huge finance costs hence it was adjusted to zero even though it's not realistic.

40.11 Debt impairment

The under-budget is attributed to less provision made on debtors. The municipality has a debtors book of more than R30m. It is expected that there will be a certain percentage of debtors that need to be impaired in order not to overstate the asset.

40.12 Repairs and maintenance

This difference is as a result of errorr in populating the budget document. In future this will be addressed to avoid huge variances of this magnitude.

40.13 Free basic services

This difference is as a result of errorr in populating the budget document. In future this will be addressed to avoid huge variances of this magnitude.

40.14 Contracted Services

This difference is as a result of errorr in populating the budget document. In future this will be addressed to avoid huge variances of this magnitude.

40.15 Transfers and Subsidies

This difference is as a result of errorr in populating the budget document as there is a 100% variance. In future this will be addressed to avoid huge variances of this magnitude.

40.16 General Expenses

The municipality attempted to contain operational costs where possible hence there was less expenditure than actually budgeted for (positive variance of 52%).